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ANNUAL
REPORT

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KERR ADDISON MINES
LIMITED

FOR THE YEAR ENDED DECEMBER 31ST.



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KERR ADDISON MINES LIMITED

DIRECTORS

| | | | | | | | | | | | |
|---------------------------|---|---|---|---|---|---|---|---|---|---|----------------|
| JOHN R. BRADFELD, LL.D. | - | - | - | - | - | - | - | - | - | - | Toronto, Ont. |
| M. S. FOTHERINGHAM | - | - | - | - | - | - | - | - | - | - | Atikokan, Ont. |
| EDWARD FUTTERER | - | - | - | - | - | - | - | - | - | - | Toronto, Ont. |
| K. C. GRAY | - | - | - | - | - | - | - | - | - | - | Toronto, Ont. |
| HAROLD H. LEATHER, M.B.E. | - | - | - | - | - | - | - | - | - | - | Hamilton, Ont. |
| R. V. PORRITT | - | - | - | - | - | - | - | - | - | - | Toronto, Ont. |
| W. H. REA | - | - | - | - | - | - | - | - | - | - | Toronto, Ont. |
| W. S. ROW | - | - | - | - | - | - | - | - | - | - | Toronto, Ont. |
| W. DENT SMITH | - | - | - | - | - | - | - | - | - | - | Toronto, Ont. |
| J. H. STOVEL | - | - | - | - | - | - | - | - | - | - | Toronto, Ont. |

OFFICERS

| | | | | | | | | | | | |
|------------------------------------|---|---|---|---|---|---|---|---|---|---|---|
| W. S. ROW | - | - | - | - | - | - | - | - | - | - | <i>Chairman of the Board</i> |
| J. H. STOVEL | - | - | - | - | - | - | - | - | - | - | <i>President</i> |
| EDWARD FUTTERER | - | - | - | - | - | - | - | - | - | - | <i>Vice-President and General Manager</i> |
| R. D. STEWART | - | - | - | - | - | - | - | - | - | - | <i>Secretary</i> |
| B. C. BONE | - | - | - | - | - | - | - | - | - | - | <i>Treasurer</i> |
| J. B. SAGE | - | - | - | - | - | - | - | - | - | - | <i>Assistant Secretary</i> |
| P. M. KAVANAGH | - | - | - | - | - | - | - | - | - | - | <i>Vice-President — Exploration</i> |
| W. G. HARGRAVE, Virginiatown, Ont. | - | - | - | - | - | - | - | - | - | - | <i>Manager</i> |

HEAD OFFICE: Suite 1600 - 44 King St. West, Toronto 1, Ont.

MINE OFFICE: Virginiatown, Ont.

EXPLORATION OFFICE: Suite 1600 - 44 King St. West, Toronto 1, Ont.

TRANSFER AGENTS AND REGISTRARS

| | | | |
|--------------------------------|---|---|--|
| CANADA PERMANENT TRUST COMPANY | - | - | 1901 Yonge Street, Toronto 7, Ont. |
| REGISTRAR & TRANSFER COMPANY | - | - | 140 Cedar Street, New York, N.Y. |
| REGISTRAR & TRANSFER COMPANY | - | - | 15 Exchange Place, Jersey City 2, N.J. |

AUDITORS

| | | | |
|------------------------|---|---|--|
| CLARKSON, GORDON & Co. | - | - | 15 Wellington Street West, Toronto, Ont. |
|------------------------|---|---|--|

ANNUAL MEETING

Friday, April 19th, 1968, 12:00 Noon at the Canadian Court
King Edward Sheraton Hotel, Toronto, Ontario

Directors' Report

To The Shareholders:

Your Directors submit herewith the Annual Report of your Company covering the year ended December 31, 1967.

Financial

Net profit was 41 cents per share and four dividends of 10¢ each were paid. No provision was made for income taxes due to the availability of write-offs of deferred exploration expenditures.

At the year-end the net value of liquid assets, including bonds and shares totalling \$46,245,500 at quoted market prices and supplies and prepaid items at cost, amounted to \$51,619,000 equivalent to \$7.25 per share outstanding which compares with \$6.76 per share at the end of 1966.

The Kerr Addison Mine

The Manager's Report contained herein gives details of production and operation.

The output of gold was 199,245 ounces compared to 188,459 ounces produced the previous year. The slight decrease in tonnage milled was more than offset by an increase in the grade of ore treated which was 0.394 ounces per ton compared to 0.357 ounces per ton in the previous year.

Turnover amongst underground employees continued to be high. The shortage of skilled miners was acute. However, a number of suitable men for training were recruited and as they become proficient the problem should be somewhat alleviated. It is hoped that the change in regulations announced by the Department of Manpower and Immigration which now permit several factors other than educational attainments to be used in evaluating prospective immigrants should permit our Company to recruit selected immigrants from Europe.

Bullion sales to the Royal Mint averaged \$37.85 per ounce compared to \$37.80 per ounce in the previous year.

Operating costs increased \$0.93 per ton or 8.7% due to lower tonnage treated, increased cost of supplies and labour and inefficiencies caused by the high labour turnover. Part of this increase will be recovered through increased payments under the Emergency Gold Mining Assistance Act.

Late in the year the federal government extended the Emergency Gold Mining Assistance Act for a period of 3 years beyond January 1, 1968. This will permit many gold mines which would otherwise have been forced to suspend operations to continue to produce gold so needed to help balance the trade deficit.

After extracting 517,238 tons ore reserves at year-end declined 439,236 tons to 3,750,329 tons averaging 0.451 ounces of gold per ton compared to 4,189,565 tons containing 0.439 ounces per ton a year earlier. The difference, 78,002 tons, is due to additional ore developed during stoping operations. At projected mining rates these reserves should last about seven years.

The long-awaited report of the Royal Commission on Taxation (Carter Commission) contained recommendations, that if carried out, would cause a severe blow to the mineral industry. The abandonment of the three-year tax-free period and the elimination of the depletion allowance would result in a rapid decline in mineral output which contributes so much to Canada's exchange payments. Without the powerful stimulus of a favourable tax climate exploration would decline and exploration funds now spent in Canada would undoubtedly be diverted to other parts of the globe having more favourable taxes on the mineral industry. Existing mines would continue production until reserves were exhausted, but much potential ore would be left undeveloped due to the elimination of the depletion allowance. The subsequent assurance of the Honourable Mitchell Sharp, Minister of Finance, that mines entering into production before January 1, 1971 would be eligible for the three-year tax-free period resulted in the continued development

of several low-grade mines for which production plans had already been shelved pending clarification by the government as to its attitude toward the recommendations of the Carter Commission. Unless the incentives of a three-year tax-exempt period for new mines and the depletion allowance are both retained few investors would hazard the risk inherent in exploration and development of new mines. It is a certainty that Joutel Copper Mines Limited, now a producer, and Agnew Lake Mines Limited, now proceeding with underground development, would not have been developed if the recommendations of the Carter Commission dealing with the mineral industry had been in effect.

It is with pleasure your Directors record their sincere appreciation of the work accomplished by the Manager, staff and employees during the year in which operating conditions were extremely difficult. Mr. S. C. Yule, who has been at the mine since 1937 and Manager since June 1963, has retired. Mr. W. G. Hargrave, who has been at the mine since 1944, General Superintendent since 1963 and Acting Manager in recent months, was appointed Manager as of December 31, 1967.

Joutel Copper Mines Limited

Construction of the surface plant was completed and trucking of ore for treatment on a toll basis in the concentrator of Mines de Poirier Inc. commenced in February, 1967. The daily tonnage treated for the remainder of the year averaged 593 tons containing 1.80% copper. The planned production rate of 700 tons per day was realized in August resulting in an average daily tonnage treated during the last five months of 675 tons containing 2.08% copper. Profit before amortization and write-offs for the last five months of the year was \$712,300 and net profit was \$142,200.

Kerr Addison holds \$2,006,800 of Joutel debentures and about two-thirds of the issued shares.

Icon Sullivan Joint Venture

The Icon Sullivan Joint Venture copper property 40 miles northeast of Chibougamau commenced milling at the concentrator of

The Merrill Island Mining Corporation Limited in Chibougamau on May 24. Total capital and preproduction expenditures were \$1,340,000. The average daily tonnage treated for the remainder of the year was 510 tons containing 3.4% copper.

The operating profit was \$1,544,000. Kerr Addison's net interest in this property is 21.375%.

Agnew Lake Mines Limited

This Company was formed to acquire the uranium claims in which an 80% interest had been optioned by Kerr Addison from Quebec Mattagami Minerals Limited in Hyman Township near Espanola, Ontario.

Surface diamond drilling, totalling 17,400 feet in 12 holes, indicated that Zones 3 and 5 persist to a depth of at least 2,800 and 3,100 feet respectively and are open down dip.

Based on drilling results and considering the geological nature of the deposits, it is estimated that these two zones, to a vertical depth of 3,500 feet, contain 7,750,000 tons of 1.8 lbs. U₃O₈ per ton on the Agnew Lake Mines Limited property and an additional 1,400,000 tons of the same grade in an intervening Kerr Addison claim.

The results of the drilling program together with good expansion potential augmented by progressively improving market forecasts led to a decision to proceed with a major mine development program aimed at bringing the mine into production when market conditions warrant.

The Bouzan Mine

A payment of \$300,000 was received from The Patino Mining Corporation for that portion of the company's property in McKenzie Township in the Chibougamau area in the Province of Quebec that they purchased in 1962. One more such payment remains to be made.

There were no developments at the property during the year. It is proposed to arrange with Patino for further exploration from their underground workings when conditions are more appropriate.

Directors' Report continued

Vangorda Mines Limited

Kerr Addison owns about two-thirds of the issued shares of this Company which holds a property consisting of 51 claims located in the Yukon Territory about 125 miles north-east of Whitehorse. No exploration work was done on the property during the year and the previously estimated tonnage of some 9,400,000 tons averaging 3.18% lead, 4.96% zinc, 0.27% copper, 1.76 ounces of silver and 0.02 ounces of gold per ton remains unchanged.

It has been announced that Anvil Mines Limited some twelve miles to the west will be brought into production at the rate of 5,000 tons per day. It has also been stated that the Government will accelerate completion of the \$7,500,000 area development road from Ross River to Carmacks, improve existing routes to tidewater, and also provide hydro-electric power. With this activity in the area the economic feasibility study of the Vangorda property made some years ago is being updated. To assist in this review additional metallurgical test work was underway at year-end.

Exploration

An aggressive exploration program was carried out across Canada and to a limited extent outside the country. Results from several primary exploration projects have prompted followup work this year. At the year-end 1,611 claims and 2 claim blocks were held in five provinces and the Yukon.

Drilling on Kerr Addison's own property in the Agnew Lake area indicated that known ore zones on the property of Agnew Lake Mines extend across an intervening Kerr Addison claim. The drilling program is being extended to other parts of Kerr Addison's holdings.

A geochemical survey carried out over the Swim Lakes lead-zinc-silver property in the Yukon disclosed an anomalous zone which will be trenched this year. Metallurgical

testing of material from the known deposit on the property was initiated.

Drilling is underway on four properties and is scheduled for six others. Major primary exploration projects are planned for Ontario, Quebec and British Columbia. In addition, Kerr Addison participates in the Icon Syndicate.

* * *

On February 9, 1968 your Company offered to purchase: (1) All the undertakings and assets of Quemont Mining Corporation, Limited, except 40,500 shares of Kerr Addison owned by Quemont, by the allotment and issue of 1,320,944 treasury shares of Kerr Addison which would permit Quemont to distribute to its shareholders two shares of Kerr Addison stock for each three shares of Quemont now held; (2) All the undertakings and assets of Normetal Mining Corporation, Limited, except 40,500 shares of Kerr Addison owned by Normetal, by the allotment and issue of 1,079,103 treasury shares of Kerr Addison which would permit Normetal to distribute to its shareholders three shares of Kerr Addison stock for each ten shares of Normetal now held.

The offers have been accepted subject to ratification by the shareholders of both Normetal and Quemont.

The acquisition would provide additional earnings to Kerr Addison during the period when earnings from its gold mine are likely to decline and before Agnew Lake Mines Limited is contributing earnings, and the combining of assets would increase Kerr Addison's ability to undertake major projects in addition to financing its share of Agnew Lake Mines Limited.

On behalf of the Board:

W. S. ROW,

Chairman.

February 9, 1968

J. H. STOVEL,

President.

Toronto, Ontario

Manager's Report

The President and Directors,
Kerr Addison Mines Limited,
Toronto, Ontario.

Dear Sirs:

The report covering the operations at the mine for the year ending December 31, 1967, is submitted herewith.

Production:

During the year 1967, 517,238 tons of ore were milled at an average rate of 1,417.1 tons per day. The average grade was 0.394 ounces of gold per ton, up well over the 0.357 ounces per ton in 1966. The value of production was \$7.54 million, up \$417 thousand over the production of \$7.12 million in 1966. The overall recovery of gold in the milling operation was 97.86%. The realized value of gold per ounce was up 5 cents to \$37.85.

Summary of Production

| Production | 1967 | 1966 |
|---|----------------|----------------|
| Tons Milled | 517,238 | 540,536 |
| Average Tons Milled Per Day | 1,417.1 | 1,480.9 |
| Total Gold Recovered | 199,245.02 oz. | 188,458.82 oz. |
| Total Silver Recovered | 11,273.96 oz. | 11,353.96 oz. |
| Average Mill-Head Value Per Ton (Bullion Plus Tails) | .394 oz. | .357 oz. |
| (Au @ \$35.00) | \$13.78 | \$12.51 |
| Percent Recovery | 97.9 | 97.6 |
| Total Realized Value of Bullion (Canadian Funds) | \$7,541,108 | \$7,124,161 |
| Total Realized Value of Bullion Per Ounce of Gold | \$37.85 | \$37.80 |
| Total Realized Value of Bullion Per Ton Milled | \$14.58 | \$13.18 |

Manager's Report continued

| Cost of Production | 1967 | | 1966 | |
|------------------------------------|--------------------|-----------------|--------------------|-----------------|
| | <i>Total</i> | <i>Per Ton</i> | <i>Total</i> | <i>Per Ton</i> |
| Development ----- | \$ 120,000 | \$.23 | \$ 65,497 | \$.12 |
| Stope Development ----- | 81,104 | .16 | 76,919 | .14 |
| Mining ----- | 2,412,003 | 4.66 | 2,269,247 | 4.20 |
| Haulage ----- | 243,292 | .47 | 251,314 | .47 |
| Hoisting ----- | 291,546 | .56 | 251,883 | .47 |
| General Mine Charges ----- | 1,365,464 | 2.64 | 1,343,728 | 2.49 |
| Crushing and Conveying ----- | 137,062 | .27 | 103,746 | .19 |
| Milling ----- | 675,389 | 1.31 | 720,724 | 1.33 |
| General Expense ----- | 631,125 | 1.22 | 644,314 | 1.19 |
| Bullion Marketing ----- | 54,078 | .10 | 49,518 | .09 |
| Total Operating Cost at Mine ----- | <u>\$6,011,063</u> | <u>\$ 11.62</u> | <u>\$5,776,890</u> | <u>\$ 10.69</u> |

Operating Profit

| | | | | |
|---|--------------------|----------------|--------------------|----------------|
| Net Operating profit at Mine (before provision for Depreciation, Taxes and Head Office Expense) ----- | <u>\$1,530,045</u> | <u>\$ 2.96</u> | <u>\$1,347,271</u> | <u>\$ 2.49</u> |
|---|--------------------|----------------|--------------------|----------------|

The decreased tonnage milled per day and the increased tonnage being mined by higher cost square-set and undercut-and-fill methods is reflected in the increased cost of 93 cents per ton.

The increased costs of materials also affected costs of mining to a greater degree during 1967. The cost of materials rose from 3% to 16% with the majority being over the 10% bracket.

Mine Development and Mining:

Drifting, raising and cross-cutting of 3,165 feet was confined to stope development between the 1300 and 4600-foot levels.

Stoping operations continued in the No. 6, 14, 15, 16 and 21 orebodies between the 1300 and 4600-foot levels. Pillar recovery continued to follow stoping operations as closely as possible so that maintenance expenditure is kept to a minimum.

Ore broken by square-set methods accounted for 68.4% of all broken ore, compared to 73.6% in 1966. Undercut-and-fill tonnage increased to 40,151 tons or 8.1% of the ore broken. Ore broken in pillars represented 39.0%, compared to 29.7% of the break in 1966.

A total of 222,457 cubic yards of backfill were placed in the mine. Recovery of 50.7% from mill tailings accounted for 220,182 cubic yards or 99.0%.

The distribution of ore production from the mine is shown in the following table:

| Source of Ore | 1967 | | 1966 | |
|------------------------------------|-------------|----------|-------------|----------|
| | <i>Tons</i> | <i>%</i> | <i>Tons</i> | <i>%</i> |
| Surface to 1900-foot level | 169,991 | 33.0 | 160,906 | 30.2 |
| 1900-foot to 2500-foot level | 69,146 | 13.4 | 93,536 | 17.5 |
| 2500-foot to 3100-foot level | 90,970 | 17.6 | 103,851 | 19.5 |
| 3100-foot to 3700-foot level | 82,652 | 16.0 | 73,962 | 13.9 |
| 3700-foot to 4600-foot level | 103,370 | 20.0 | 100,753 | 18.9 |
| Total Ore Produced | 516,129 | 100.0 | 533,008 | 100.0 |

A summary of the tonnages of ore broken by the different mining methods follows:

| Mining Method | 1967 | | 1966 | |
|---|--------------------|----------|--------------------|----------|
| | <i>Tons Broken</i> | <i>%</i> | <i>Tons Broken</i> | <i>%</i> |
| Cut-and-Fill Stopping | 71,573 | 14.4 | 104,878 | 21.1 |
| Cut-and-Fill Pillar Recovery | — | — | — | — |
| Total Cut-and-Fill Mining | 71,573 | 14.4 | 104,878 | 21.1 |
| Overhand Square-Set Stopping | 186,624 | 37.5 | 226,705 | 45.7 |
| Overhand Square-Set Pillar Recovery | 93,841 | 18.9 | 80,458 | 16.2 |
| Total Overhand Square-Set Mining | 280,465 | 56.4 | 307,163 | 61.9 |
| Underhand Square-Set Stopping | — | — | — | — |
| Underhand Square-Set Pillar Recovery | 59,443 | 12.0 | 57,822 | 11.7 |
| Total Underhand Square-Set Mining | 59,443 | 12.0 | 57,822 | 11.7 |
| Total Square-Set Mining | 339,908 | 68.4 | 364,985 | 73.6 |
| Undercut and Fill Stopping | — | — | 8,290 | 1.7 |
| Undercut and Fill Pillar Recovery | 40,151 | 8.1 | 8,989 | 1.8 |
| Total Undercut and Fill Mining | 40,151 | 8.1 | 17,279 | 3.5 |
| Total Cut-and-Fill, Square-Set, and Undercut and Fill Mining | 451,632 | 90.9 | 487,142 | 98.2 |
| Shrinkage Stopping | 30,595 | 6.2 | — | — |
| Total Mining | 482,227 | 97.1 | 487,142 | 98.2 |
| Development Ore | 14,498 | 2.9 | 8,706 | 1.8 |
| Total Ore Broken | 496,725 | 100.0 | 495,848 | 100.0 |
| Percentage of Tons Milled | | 96.0 | | 91.7 |
| Total Ore Broken in Pillars | 193,435 | 39.0 | 147,269 | 29.7 |

Manager's Report continued

Ore Reserves:

At the end of 1967, proven ore reserves including allowances for dilution, were as follows:

| | <i>Tons</i> | <i>Ounces of Gold Per Ton</i> |
|---|-------------|-----------------------------------|
| Surface to 1900-foot level | 644,112 | 0.313 |
| 1900-foot to 2500-foot level | 241,988 | 0.318 |
| 2500-foot to 3100-foot level | 109,857 | 0.365 |
| 3100-foot to 3700-foot level | 681,652 | 0.418 |
| 3700-foot to 4600-foot level | 2,072,720 | 0.525 |
| Total reserves at the end of 1967 | 3,750,329 | 0.451 |
| Total reserves at the end of 1966 | 4,189,565 | 0.439 |

The actual reduction in ore reserves was 439,236 tons. The difference, 81,227 tons, is due to additional ore located during stoping operations and the removal of 3,225 tons for economic reasons.

No new ore was found during the year to change the ore reserve figures significantly.

General:

The total work force increased from 686 to 715 and the underground work force increased from 442 to 473. There is still a shortage of skilled miners, but with housing facilities available and the recruitment of men from the Toronto area, the retention of workers has improved. More than 73% of the employees on the payroll January 1st, 1968 had more than one year's service with the Company.

A second training programme covering a twelve-month period from December 23, 1967 was started. Working with the cooperation of the Department of Labour, men with some experience can be upgraded and new men can be trained to the status of apprentice miner where they are capable of performing productive work.

The consumption of timber continues to be the major material cost item. During 1967, 6.19 million board feet of lumber were consumed compared to 6.37 million board feet in 1966.

We regret to report the deaths of our Chief Geologist and Chief Assayer during the year. Both these men were employees of long standing. Ted Hilder and John Cox were well liked by all who knew them or worked with them. They will be deeply missed.

The cooperation of the men at the mine, their immediate supervisors and Departmental Heads has been very good. We all acknowledge with sincere appreciation the continued support of the Senior Officers and Directors.

Respectfully submitted,

W. G. HARGRAVE,
Manager.

Virginiatown, Ontario,
February 6, 1968.

KERR ADDISON

(Incorporated under the laws of the State of Nevada)

BALANCE SHEET

DECEMBER 31, 1967

(with comparative figures for 1966)

ASSETS

CURRENT:

| | 1967 | 1966 |
|---|------------|------------|
| Cash and short-term notes | \$ 958,834 | \$ 422,795 |
| Marketable securities, at cost less amounts written off (quoted market value in 1967 \$14,626,000 and \$13,287,000 in 1966) | 9,744,824 | 10,490,352 |
| Bullion at realizable value | 876,155 | 636,597 |
| Accounts and interest receivable (including amounts due from subsidiaries in 1967 \$293,610, and \$137,038 in 1966) | 1,030,139 | 1,144,630 |
| Total current assets | 12,609,952 | 12,694,374 |

INVESTMENTS:

| | | |
|--|------------|------------|
| Subsidiary companies (note 1) | 6,165,658 | 3,307,036 |
| Other mining companies (note 2) | 13,522,019 | 15,115,196 |
| Icon Sullivan Joint Venture (note 3) | 628,649 | 73,408 |
| | 20,316,326 | 18,495,640 |

FIXED:

| | | |
|---|------------|------------|
| Buildings, plant and equipment, at cost | 13,851,250 | 13,937,992 |
| Less accumulated depreciation | 13,696,843 | 13,709,934 |
| | 154,407 | 228,058 |
| Land, at cost | 72,995 | 72,995 |
| Mining claims and properties, at cost | 1,245,993 | 1,245,993 |
| | 1,473,395 | 1,547,046 |

DEFERRED AND OTHER:

| | | |
|---------------------------------------|--------------|--------------|
| Exploration expenditures | 497,283 | 494,276 |
| Supplies and materials, at cost | 863,497 | 977,210 |
| Prepaid expenses | 30,382 | 54,218 |
| Non-current receivables | 4,792 | 306,048 |
| | 1,395,954 | 1,831,752 |
| | \$35,795,627 | \$34,568,812 |

(See accompanying notes)

KERR ADDISON MINES LIMITED

(Incorporated under the laws of Ontario)

BALANCE SHEET

As at December 31, 1967

(Comparative figures for December 31, 1966)

LIABILITIES

CURRENT:

| | 1967 | 1966 |
|--------------------------------------|------------|------------|
| Accounts payable and accrued charges | \$ 554,674 | \$ 562,313 |
| Mining taxes payable | 82,952 | 45,000 |
| Balance of dividends payable | 227,000 | 200,300 |
| Total current liabilities | 864,626 | 807,613 |

SHAREHOLDERS' EQUITY:

Capital stock (note 4) —

Authorized:

10,000,000 shares of no par value

Issued:

7,124,402 shares in 1967 (7,082,952 in 1966)

| | | |
|----------------|--------------|--------------|
| Earned surplus | 21,281,724 | 20,393,593 |
| | 34,931,001 | 33,761,199 |
| | \$35,795,627 | \$34,568,812 |

On behalf of the Board:

W. S. ROW, Director.

J. H. STOVEL, Director.

AUDITORS' REPORT

To the Shareholders of
Kerr Addison Mines Limited:

We have examined the balance sheet of Kerr Addison Mines Limited as at December 31, 1967 and the statements of operations, earned surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1967 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
February 15, 1968.

CLARKSON, GORDON & CO.,
Chartered Accountants.

(See accompanying notes)

Statement of Operations

For the year ended December 31, 1967

(with comparative figures for the year 1966)

| MINE OPERATIONS: | 1967 | 1966 |
|---|---------------------|---------------------|
| Bullion produced | \$ 7,541,108 | \$ 7,124,161 |
| Cost of metal production | 6,011,063 | 5,715,891 |
| Less recoverable under the Emergency Gold Mining Assistance Act | 500,000 | 598,000 |
| | <u>5,511,063</u> | <u>5,117,891</u> |
| Operating profit before depreciation, taxes and administrative expenses | 2,030,045 | 2,006,270 |
| Depreciation | 67,443 | 94,055 |
| Provision for mining tax | 72,373 | 53,270 |
| | <u>139,816</u> | <u>147,325</u> |
| Profit before administrative expenses | <u>1,890,229</u> | <u>1,858,945</u> |
| INVESTMENT AND OTHER INCOME: | | |
| From subsidiary, Joutel Copper Mines Limited (note 1) — | | |
| Income bond interest | 119,315 | 126,974 |
| Equity in earnings | 90,076 | |
| Dividends and interest received from marketable securities, investments in other mining companies, and short-term notes | 1,509,882 | 1,576,869 |
| Equity in profits of Icon Sullivan Joint Venture (note 3) | 318,616 | |
| Miscellaneous income | 27,585 | 130,094 |
| | <u>2,065,474</u> | <u>1,833,937</u> |
| | <u>3,955,703</u> | <u>3,692,882</u> |
| DEDUCT: | | |
| Administrative and general expenses | 214,757 | 279,806 |
| Outside exploration expenses | 817,207 | 722,322 |
| | <u>1,031,964</u> | <u>1,002,128</u> |
| Net income for the year | <u>\$ 2,923,739</u> | <u>\$ 2,690,754</u> |

(See accompanying notes)

Statement of Earned Surplus

For the year ended December 31, 1967

(with comparative figures for the year 1966)

| | 1967 | 1966 |
|--|---------------------|---------------------|
| Balance at beginning of year | <u>\$20,393,593</u> | <u>\$20,228,652</u> |
| ADD: | | |
| Net income for the year | 2,923,739 | 2,690,754 |
| Gain on sale of investments | 912,577 | 356,049 |
| Gain on sale of fixed assets | | 28,599 |
| | <u>3,836,316</u> | <u>3,075,402</u> |
| | <u>24,229,909</u> | <u>23,304,054</u> |
| DEDUCT: | | |
| Dividends (40 cents per share) | 2,844,711 | 2,825,421 |
| Adjustment of prior years' allowances under the Emergency Gold Mining Assistance Act | 103,474 | 85,040 |
| | <u>2,948,185</u> | <u>2,910,461</u> |
| Balance at end of year | <u>\$21,281,724</u> | <u>\$20,393,593</u> |

(See accompanying notes)

Statement of Source and Application of Funds

For the year ended December 31, 1967

(with comparative figures for the year 1966)

| SOURCE OF FUNDS: | 1967 | 1966 |
|---|---------------------|---------------------|
| From operations — | | |
| Net income for the year | \$ 2,923,739 | \$ 2,690,754 |
| Depreciation | 67,443 | 94,055 |
| | <u>2,991,182</u> | <u>2,784,809</u> |
| Gain on sale of investments | 912,577 | 356,049 |
| Issue of capital stock under share options | 281,671 | 283,131 |
| Reduction in investment in other mining companies | 1,593,177 | 269,541 |
| Fixed asset disposals (net) | 6,207 | 36,467 |
| Decrease in supplies and materials, prepaid expenses and non-current receivables | 438,805 | 501,954 |
| | <u>6,223,619</u> | <u>4,231,951</u> |
| APPLICATION OF FUNDS: | | |
| Dividends | 2,844,711 | 2,825,421 |
| Adjustment of prior years' allowances under the Emergency Gold Mining Assistance Act | 103,474 | 85,040 |
| Increased (decreased) investment in subsidiary companies — | | |
| Joutel Copper Mines Limited | 116,370 | (64,939) |
| Agnew Lake Mines Limited | 2,742,251 | |
| Increased investment in Icon Sullivan Joint Venture | 555,241 | 73,408 |
| Deferred exploration expenditures | 3,007 | 494,276 |
| | <u>6,365,054</u> | <u>3,413,206</u> |
| (Decrease) increase in working capital | (141,435) | 818,745 |
| Working capital at beginning of year | 11,886,761 | 11,068,016 |
| Working capital at end of year | <u>\$11,745,326</u> | <u>\$11,886,761</u> |

(See accompanying notes)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1967

1. INVESTMENT IN SUBSIDIARY COMPANIES

The investment in subsidiary companies is made up as follows:

| | 1967 | 1966 |
|--|--------------------|--------------------|
| Joutel Copper Mines Limited (63.3% owned) | | |
| Shares, at cost | \$1,529,236 | \$1,531,458 |
| Equity in accumulated earnings | 90,076 | |
| Income debentures, at cost (par value 1967 — \$2,006,800; 1966 — \$1,973,100) | 1,804,093 | 1,775,577 |
| Agnew Lake Mines Limited (80% owned) | | |
| Shares, at cost | 263,476 | |
| Advances | 2,478,776 | |
| Inactive subsidiary companies, at nominal value | 1 | 1 |
| | <u>\$6,165,658</u> | <u>\$3,307,036</u> |

Joutel Copper Mines Limited, the only operating subsidiary, commenced production in commercial quantities on August 1, 1967. The company's equity in the earnings of this subsidiary for the period from that date to December 31, 1967 is included in net income for the year (and has been added to the carrying value of the investment).

Notes to Financial Statements continued

Agnew Lake Mines Limited, which was incorporated during 1967, acquired Kerr Addison's interest in certain mining properties in the Agnew Lake area in exchange for 600,000 treasury shares. The shares are carried in the accounts at an amount equal to the company's expenditures on the property to date of transfer. To December 31, 1967 the company had advanced a further \$2,478,776 to Agnew Lake Mines Limited for development of the property. Subsequent to the year end, the company purchased \$4,000,000 par value of debentures and 200,000 common shares of Agnew Lake Mines Limited, and at the same time received repayment of all its outstanding advances. This subsidiary has had no profits to date, all expenditures other than on fixed assets being classified as deferred exploration, development and preproduction.

The accounts of the two subsidiaries are not consolidated herein because of the substantial minority interest.

2. INVESTMENTS IN OTHER MINING COMPANIES

These investments represent shares and bonds of other mining companies which are being held on a relatively long-term basis. Such investments, which are carried at cost of \$13,522,019, had a quoted market value on December 31, 1967 of approximately \$27,234,000 (computed by pricing the individual holdings at the closing market quotations on that date). This amount does not necessarily represent the value of these holdings, which may be more or less than that indicated by market quotations.

3. ICON SULLIVAN JOINT VENTURE

The company has entered into an agreement with three other partners to mine the Icon Sullivan copper mine property in the Province of Quebec. The Mine commenced production in commercial quantities on June 1, 1967. Kerr Addison's share of the profits of the joint venture from that date to December 31, 1967 (\$318,616) is included in net income for the year. The balance sheet value of \$628,649 represents the company's equity in the net book value of the assets of the joint venture at December 31, 1967 (after appropriate deductions for depreciation of fixed assets and amortization of mining properties and pre-production expense).

4. CAPITAL STOCK

During the year 41,450 shares were issued under employee stock options for a total cash consideration of \$281,671. As at December 31, 1967 there were no further stock options outstanding.

5. INCOME TAXES

For income tax purposes the company is able to claim deductions for depreciation and exploration expenditures in excess of the amounts written in the accounts. As a result it is estimated that income taxes otherwise payable for 1967 of approximately \$177,000 will be reduced to nil and accordingly no income tax provision has been set up in the accounts. On a cumulative basis it is estimated that income taxes for all years up to and including 1967 have been reduced by approximately \$310,000 as a result of claiming deductions of this kind in excess of amounts written off in the accounts.

Certain income tax assessments of the company and predecessor companies for prior years are under appeal or negotiation with the income tax authorities. The company expects that the eventual settlement of these assessments will result in a net refund to the company of something in excess of \$500,000, but no amount has been set up in the accounts pending receipt of final assessments for the years in question.

6. REMUNERATION OF DIRECTORS AND OFFICERS

Total remuneration paid to directors and senior officers during the year ended December 31, 1967 amounted to \$160,644, and \$166,600 in 1966.

7. OFFERS TO PURCHASE MADE SUBSEQUENT TO THE YEAR-END

On February 9, 1968 the company made offers to the Boards of Directors of Quemont Mining Corporation, Limited and Normetal Mining Corporation, Limited to purchase the undertaking, property and assets of these companies (other than shares of Kerr Addison held by them) in exchange for the issue of treasury shares. Such offers are subject to the completion of formal agreements and approval by the shareholders of Quemont and Normetal, and if completed, will involve the issue of a total of 2,400,047 treasury shares.

PRODUCTION RECORD

FOR THE YEARS 1938 TO 1967

| | <i>Tons Milled</i> | <i>Average Tons Per Day</i> | <i>Recovery Per Ton Ozs.</i> | <i>Total Ounces Produced</i> | <i>Total Value</i> |
|------|------------------------|-------------------------------------|--------------------------------------|--------------------------------------|------------------------|
| 1938 | 148,642 | 609 | 0.1880 | 27,946.54 | \$ 985,641 |
| 1939 | 268,409 | 735 | 0.2030 | 54,480.03 | 1,984,858 |
| 1940 | 445,864 | 1,218 | 0.2064 | 92,021.07 | 3,544,433 |
| 1941 | 694,894 | 1,904 | 0.2102 | 146,071.62 | 5,626,389 |
| 1942 | 756,453 | 2,072 | 0.2139 | 161,811.43 | 6,232,794 |
| 1943 | 674,487 | 1,848 | 0.1930 | 130,192.28 | 5,015,128 |
| 1944 | 484,583 | 1,324 | 0.1666 | 80,722.23 | 3,109,598 |
| 1945 | 430,065 | 1,178 | 0.1885 | 81,065.07 | 3,122,706 |
| 1946 | 531,695 | 1,457 | 0.1984 | 105,483.35 | 3,853,253 |
| 1947 | 780,153 | 2,137 | 0.1923 | 150,039.56 | 5,257,179 |
| 1948 | 889,711 | 2,431 | 0.1873 | 166,617.10 | 5,838,584 |
| 1949 | 1,560,195 | 4,275 | 0.1837 | 286,573.92 | 10,379,402 |
| 1950 | 1,582,974 | 4,337 | 0.2027 | 320,808.50 | 12,211,154 |
| 1951 | 1,612,707 | 4,418 | 0.2052 | 330,936.99 | 12,432,366 |
| 1952 | 1,649,836 | 4,508 | 0.2110 | 348,113.58 | 12,566,611 |
| 1953 | 1,643,298 | 4,502 | 0.2081 | 341,912.99 | 11,969,639 |
| 1954 | 1,659,298 | 4,546 | 0.2142 | 355,473.24 | 12,146,148 |
| 1955 | 1,660,533 | 4,549 | 0.2573 | 427,193.24 | 14,797,154 |
| 1956 | 1,665,045 | 4,549 | 0.2842 | 473,235.67 | 16,277,717 |
| 1957 | 1,652,132 | 4,526 | 0.3143 | 519,336.89 | 17,474,450 |
| 1958 | 1,661,980 | 4,553 | 0.3263 | 542,268.88 | 18,423,484 |
| 1959 | 1,662,534 | 4,555 | 0.3412 | 567,304.80 | 19,125,030 |
| 1960 | 1,667,638 | 4,556 | 0.3552 | 592,244.59 | 20,420,106 |
| 1961 | 1,490,319 | 4,083 | 0.3495 | 520,867.17 | 18,615,842 |
| 1962 | 1,242,933 | 3,405 | 0.3364 | 418,150.29 | 15,742,590 |
| 1963 | 956,217 | 2,620 | 0.3399 | 324,986.31 | 12,299,154 |
| 1964 | 779,174 | 2,129 | 0.3426 | 266,970.40 | 10,099,818 |
| 1965 | 653,757 | 1,791 | 0.3415 | 223,252.31 | 8,444,945 |
| 1966 | 540,536 | 1,481 | 0.3487 | 188,458.82 | 7,124,162 |
| 1967 | 517,238 | 1,417 | 0.3852 | 199,245.02 | 7,541,108 |
| | 31,963,300 | — | 0.2642 | 8,443,783.89 | \$302,661,443 |

Breakdown of Supplies and Services

PURCHASED BY THE KERR ADDISON MINE FOR THE YEAR 1967

| | |
|---|-------------------------|
| Iron and Steel Products | \$ 172,878 |
| Tools and Machinery (Mine, Mill, Shops) | 104,302 |
| Reagents and Chemicals | 176,775 |
| Coal and Coke | 2,968 |
| Petroleum Products | 17,509 |
| Rubber Products | 19,790 |
| Lumber and Timber | 639,184 |
| Building Products (Miscellaneous) | 139,143 |
| Electrical Equipment | 26,551 |
| Air-Operated Equipment and Parts | 27,450 |
| Explosives | 132,633 |
| Refractories | 3,595 |
| Foodstuffs | 5,643 |
| Insurance | 152,050 |
| Miscellaneous | 102,480 |
| Sub-Total | <hr/> 1,722,951 |
| Hydro-Electric Power | 274,150 |
| Freight and Express | 46,847 |
| TOTAL | <hr/> <hr/> \$2,043,948 |
| Total Paid in Wages and Salaries | \$4,144,097 |
| Provincial Mining Tax | 72,373 |
| Municipal and Sundry Taxes | 39,898 |



KERR ADDISON MINES LIMITED

INFORMATION CIRCULAR

SOLICITATION OF PROXIES

This Information Circular is furnished in connection with the solicitation of proxies by the Management of the Company, for use at the Annual and General Meeting of the Shareholders of the Company to be held on Friday, the 19th day of April, 1968 at the time and place and for the purposes set forth in the Notice of Meeting. The solicitation will be primarily by mail, but proxies may also be solicited by regular employees of the Company. The cost of solicitation by Management will be borne by the Company.

The persons named in the enclosed form of proxy are Directors of the Company, IF, HOWEVER, A SHAREHOLDER DESIRES TO APPOINT SOME OTHER PERSON (WHO NEED NOT BE A SHAREHOLDER) TO REPRESENT HIM AT THE MEETING OTHER THAN THOSE DESIGNATED IN THE FORM OF PROXY, HE MAY DO SO BY INSERTING SUCH PERSON'S NAME IN THE BLANK SPACE PROVIDED IN THE FORM OF PROXY OR COMPLETE ANOTHER FORM OF PROXY AND, IN EITHER CASE, RETURN IT TO THE SECRETARY OF THE COMPANY.

A shareholder who has given a proxy may revoke it at any time prior to its use either (a) by signing a proxy bearing a later date and delivering it to the Secretary of the Company, or (b) by signing written notice of revocation and delivering it to the Secretary of the Company or the Chairman of the Meeting.

EXERCISE OF DISCRETION

The persons named in the enclosed form of proxy will vote the shares in respect of which they are appointed and where a choice is specified, will vote in accordance with the specification so made. WHERE NO CHOICE IS SPECIFIED, THE SHARES SO REPRESENTED WILL BE VOTED IN FAVOUR OF THE MATTER ON WHICH A CHOICE WAS GIVEN. The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of meeting, and with respect to other matters which may properly come before the meeting.

VOTING SHARES

At the close of business on February 15th, 1968 the Company had 7,124,402 outstanding common shares without nominal or par value and the holders of such shares are entitled to one vote for each share held, at such meeting and at any adjournment thereof. The Management of the Company has been informed that Noranda Mines Limited is the only person or company which owns beneficially, directly or indirectly more than 10% of the outstanding common shares of the Company, owning 2,622,135 shares, or 36.8% at February 15th, 1968.

Only shareholders of record at the time set for the meeting will be entitled to vote at the meeting or any adjournment thereof.

ELECTION OF DIRECTORS

The Management of the Company proposes to nominate the persons listed below as Directors of the Company. Each Director so elected will hold office until the next annual meeting or until his successor is duly elected. It is the intention of the persons named in the enclosed form of proxy to vote for the election of the first ten names listed below, all of whom are now Directors of the Company and have been since the dates indicated, and shall also vote for the election of Mr. Paterson and Mr. Ostiguy if the resolution increasing the Board of Directors from ten to twelve Directors is confirmed by the shareholders. If any of such nominees should be unable to serve as Directors of the Company for any unforeseen reason the persons named in the enclosed form of proxy reserve the right to vote for another nominee in their discretion.

| <u>Name</u> | <u>Positions and Offices with the Company</u> | <u>Principal Occupation at Present and Within the Last Five Years</u> | <u>Became Director</u> | <u>Common Shares Beneficially- owned Directly or Indirectly February 15/68</u> |
|--------------------|---|--|----------------------------|--|
| John R. Bradfield | | Chairman of the Board and Chief Executive Officer of Noranda Mines Limited which office he has held since 1964. From 1962 to 1964 he served as Chairman of the Board and President of Noranda Mines Limited, and as President of that Company from 1956 to 1962. | 1962 | 1,000 |
| M. S. Fotheringham | | Retired in 1967. Prior to 1967 he was President and General Manager of Steep Rock Iron Mines Limited. | 1961 | 1,000 |
| Edward Futterer | Vice-President and General Manager | Vice-President and General Manager of the Company. From 1964 to 1967 he was Technical Assistant to the President of the Company. Prior to 1964 he was Assistant Mine Manager of Denison Mines Limited. | 1967 | 2,000 |
| K. C. Gray | | Retired since 1965. Prior to 1965 he was Executive Vice-President of the Company. | 1958 | 1,000 |
| Harold H. Leather | | Director of Leather Cartage Limited. Prior to 1967 he was President of Leather Cartage Limited, Hamilton, Ontario. | 1945 | 1,000 |
| R. V. Porritt | | President of Noranda Mines Limited, which office he has held since 1964. From 1961 to 1964 he was Executive Vice-President of Noranda Mines Limited. | 1963 | 1,260 |
| W. H. Rea | | Chairman of the Board of Great Canadian Oil Sands Limited which office he has held since 1964. From 1963 to 1964 he acted as an Oil and Gas Consultant. He served as President of Canadian Oil Limited from 1949 to 1963. | 1963 | 1,000 |
| W. S. Row | Chairman of the Board | Executive Vice-President of Noranda Mines Limited which office he has held since 1965. Prior to 1965 he was also a Vice-President of Noranda Mines Limited and prior to 1967 he was also President of Kerr Addison Mines Limited. | 1955 | 11,000 |
| W. Dent Smith | | Company Director. During 1967 he was President of Eastern and Chartered Trust Company. Prior to which he was Chairman of the Board and/or President of Terminal Warehouses Limited. | 1951 | 3,100 |
| J. H. Stovel | President | President of the Company. From 1965 to 1967 he served as Executive Vice-President of the Company. Prior to 1965 he was General Manager of Noranda Mines Limited. | 1964 | 5,000 |
| J. A. H. Paterson | | Retired since 1965. He was President of Quemont Mining Corporation, Limited and of Normetal Mining Corporation, Limited from January 1st, 1960 to December 31st, 1965. | | nil |
| J. P. W. Ostiguy | | President of Morgan Ostiguy & Hudon Limited. | | nil |

Note: Mr. Row is also the beneficial owner of 501 shares of Joutel Copper Mines Limited, a subsidiary of this Company. Messrs. Stovel, Futterer, and Gray, being Directors of Joutel Copper Mines Limited hold one share each of Joutel Copper Mines Limited.

REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

- (1) Aggregate direct remuneration paid or payable by the Company and its subsidiaries in 1967 to the Directors and senior officers of the Company was \$160,644.
- (2) Estimated aggregate cost to the Company and its subsidiaries in 1967 of all pension or retirement benefits proposed to be paid to the Directors and senior officers of the Company under existing plans in the event of retirement at normal retirement age was \$4,231.
- (3) During 1967 the senior officers of the Company purchased common shares of the Company pursuant to stock options granted to them in previous years by the Company, as follows:—

| Quarter in 1967 | Number of Common Shares purchased | Purchase price per share | Price Range of Shares on Toronto Stock Exchange | |
|--------------------|--------------------------------------|-----------------------------|---|----------------------------------|
| | | | High | Low |
| Jan. — Mar. | Nil | Nil | \$12 ⁷ / ₈ | \$10 ¹ / ₂ |
| Apr. — June | { 14,100 5,000 | 6.39 | 16 ³ / ₄ | 10 ⁷ / ₈ |
| | | 8.43 | | |
| July — Sept. | 1,500 | 7.01 | 16 ¹ / ₄ | 13 ³ / ₄ |
| Oct. — Dec. | 4,200 | 6.39 | 18 ³ / ₄ | 15 ³ / ₈ |

APPOINTMENT OF AUDITORS

The persons named in the enclosed form of proxy intend to vote for the re-appointment of Messrs. Clarkson, Gordon & Co., Chartered Accountants, Toronto, as auditors of the Company, to hold office until the next Annual Meeting of Shareholders. Messrs. Clarkson, Gordon & Co. have been auditors of the Company for more than five years.

SPECIAL RESOLUTION NUMBER 2

The shareholders of the Company will be asked to consider, and if thought fit, to confirm the resolution passed by the Directors of the Company on February 9th, 1968, as Special Resolution Number 2 of the Company providing for an increase in the number of Directors of the Company from ten to twelve Directors, and fixing the quorum for a meeting of Directors at five Directors.

OTHER BUSINESS

The Management of the Company knows of no matters to come before the Meeting other than the matters referred to in the Notice of the Meeting. However, if matters not now known to the Management should come before the Meeting, shares represented by proxies solicited by the Management will be voted on each such matter in accordance with the best judgment of the nominee voting same.

On behalf of the Board,

R. D. STEWART,
Secretary.

February 15th, 1968.

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